Otago Outlook

MARCH 2006

DATA UPDATE

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Cover Photographs – from top:
Dunedin Railway Station
Tussocks and Hawkdun Range, Maniototo
Sheep and Farmland near Balclutha, South Otago
Moeraki Boulders, North Otago Coast
Lake Wakatipu and Queenstown

Contents

Otago Forward Update

The summary for this March 2006 edition of Otago Forward signals that the regional economy has started to settle as the national economy comes off the boil. The modest slowing identified should not be viewed as the first signs of a recessive phase but it is a clear signal that regional and individual business revenues are less secure and the management environment must change accordingly.

The business background will, for 2006 at least, be more competitive and less secure than at any time in the past five years. Cost control, debtor management and revenue security will need to become priorities for the regions managers and owners regardless of their enterprise. For many these are skill sets that have not been required for success during a strong growth phase but their importance in an economy that contains as many risks as opportunities should not be underestimated.

Despite the caution the region continues to provide as many opportunities as challenges. Mineral exploration is on the brink of a significant expansion, the regional tourist economy continues to out perform the nations and niche activities such as fashion, IT, wine and design are showing growth and resilience in a demanding environment.

The economic outlook has changed but it is not beyond our collective capacity to manage that change in manner that continues to sustain the region.

Clive Geddes
Otago Forward Chairman

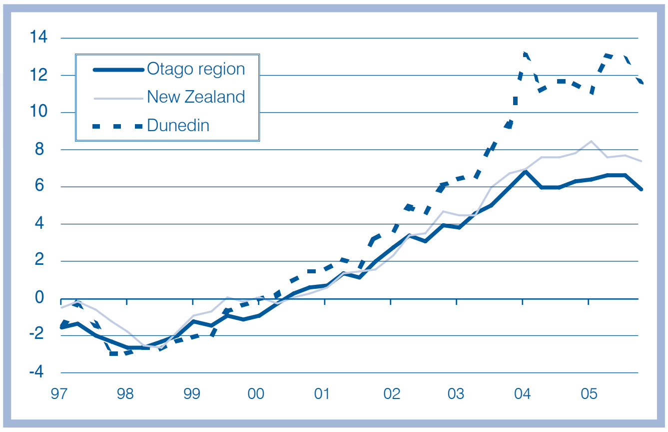
Inside This Issue

The year of 2005 can probably be described as a year of consolidation for the Otago region after several years of rapid economic growth. The housing market in Otago has been particularly buoyant, with strong increases in house prices throughout the region, which has stimulated house building activity, particularly in Waitaki, Clutha and Dunedin. These three areas have also experienced strong growth in non-residential building activity, which should continue in 2006. The pace of tourism growth slowed in 2005, but with a 4% increase in guest nights the Otago region out-performed the 2% growth recorded nationally. Work opportunities continued to expand leading to 650 fewer registered job seekers in December 2005 than a year before.

However, there were signs of some weakening in the Otago business environment at the end of 2005 and it looks like 2006 could be a more challenging year for Otago businesses. The lift in interest rates appears to have dented business and consumer confidence nationally and this is likely to undermine the recent buoyancy in the Otago economy. But the downturn in the pace of growth is expected to be mild and shortlived. Indeed there are a number of factors that should stimulate a recovery in economic growth in 2006: the stimulatory impact of the government's Working for Families package, declines in the exchange rate will stimulate growing returns from exporting, and the tight labour market should underpin job security and real wage growth.

Business Environment

Business Environment Index[1]



Source: Infometrics Limited

According to the Business Environment Index[1], economic activity in both Dunedin and Otago as a whole dipped away slightly in the last quarter of 2005. After climbing steadily in the six years to 2004, the Business Environment Index indicates that economic activity in Otago has been stable rather than growing over the last two years.

On a quarterly basis, most indicators monitored deteriorated in the December quarter compared with the September quarter. Despite this quarterly drop, many indicators remain above their December 2004 position.

There were 9% more new houses built throughout Otago in the December quarter of 2005 compared with the same period in 2004. This compares with a 13% decline nationally.

House prices continued to rise fast in Otago through out 2005, increasing by 21% in the four quarters to the December quarter 2005. The median house price in Otago ($294,000) in the month of December is virtually the same as the median national price of $295,000.

House sales in Otago have been remarkably stable in 2005, averaging around 440 per month.

[1]The Business Environment Index is a tool designed to measure a range of indicators that contribute to the region's economy. Key indicators used include job advertisements, retail trade, residential and commercial building consents, real estate sales, and tourist visitor nights. The index uses the average level of economic activity between 1996 and 2003 as a baseline to show contractions or expansions in the economy.

There has been considerable new non-residential building activity in Otago during 2005. On a year-on-year basis, the value of non-residential building consents were 64% higher in 2005 compared with 2004.

A net extra 425 foreigners chose to make Otago their home in 2005, but this is down from the net 673 moving to Otago in 2004. This follows the national downward trend in net migration.

Employment in the Otago region increased by 5.7% in the year to March 2005, compared with 4.5% employment growth nationally.

The weak employment data is called into question by the ongoing reductions in unemployment in Otago. Registered jobseekers in Otago declined by 21% from 3,112 to 2,462 between December 2004 and December 2005.

Tourism continues to be a source of economic and employment growth for the region - the number of guest nights purchased over the year ended December 2005 rose by 4% (compared with 2% for New Zealand as a whole).

In the year to December 2005, retail sales in the Otago region increased by 8% compared with the 6% increase reported nationally.

There was a 5% decline in vehicle registrations in the Otago region in 2005 compared with 2004.

Port Otago handled 1.44m tonnes of cargo over the year ended December 2005, a decrease of 2% on the previous year.

Economic Indicators

ECONOMIC INDICATORS FOR THE OTAGO REGION - As at December 2005						
Key Economic Indicators	Waitaki	Dunedin	Clutha	Central Otago	Queenstown-Lakes	**Otago Region**
Residential Building Consent Numbers						
Three month annual % change	47%	42%	0%	-2%	-3%	**9%**
Year end % change	14%	12%	21%	-19%	-14%	**-5%**
Non-residential Building Consent Values						
Three month annual % change	375%	141%	2254%	-48%	-46%	**9%**
Year end % change	161%	71%	1120%	-17%	-12%	**64%**
Unemployment (Registered Job Seekers)[2]						
Number	344	1,874	221	13	10	**2,462**
Number a year ago	408	2,400	257	32	15	**3,112**
Tourist Accommodation (Guest Nights)						
Three month annual % change	-5%	5%	22%	8%	2%	**3%**
Year end % change	1%	3%	5%	5%	4%	**4%**
House Sales[3]						
Three month annual % change	4%	-12%	-24%	-17%	27%	**-6%**
Year end % change	11%	-10%	-4%	6%	10%	**-3%**
House Prices[4]						
Three month annual % change	13%	12%	47%	15%	20%	**21%**
Annual % change	6%	9%	62%	14%	23%	**25%**
Net External Migration						
Year ended number	-14	229	-38	24	224	**425**
Year ended number a year ago	-10	495	-8	-26	222	**1,018**

Source: Statistics New Zealand (unless otherwise stated)
[2] Source: Ministry of Social Development
[3] Source: Real Estate Institute of New Zealand (REINZ)
[4] Source: Real Estate Institute of New Zealand (REINZ)

There is considerable strength in non-residential building activity in Otago at present. This activity is occurring primarily in the coastal districts (Waitaki, Dunedin City and Clutha). Despite Statistics New Zealand data indicating recent reductions in employment in Otago, reductions in registered jobseekers suggest that the Otago labour market remains tight, especially in Central Otago and the Queenstown-Lakes districts, where there are only a handful of registered jobseekers.

The pace of growth in tourism slowed in 2005, but Otago has managed to maintain a higher pace of growth than the national average, with a 4% increase in guest nights in Otago compared with 2% nationally. The number of house sales slowed in most parts of Otago in 2005. The exceptions were the Waitaki and Queenstown-Lakes districts. Despite the slowdown in sales, house prices continued to rise strongly in 2005. By December 2005, the median house price in Otago ($294,000) was just a whisker below the national median ($295,000).

Otago region's population increased by 1.1% (or 2,070 people) in the year to June 2005. This is slightly lower than the national estimate of 1.4% growth in 2005, but it is higher than the 0.9% average population growth for the region since 2001 and also the 0.9% average for New Zealand excluding the Auckland region.

Economic Outlook

International Outlook

The world economy grew 3.8% over 2004 - the fastest rate in a decade. However, the pace of growth is estimated to have slowed to around 3% over 2005 - a rate in keeping with the average for the past ten years.

The American economy is continuing to chug along, despite high oil prices and other inflation pressures threatening to cramp growth. Over the three years to 2008, we forecast that American economic growth will average 3.2%pa. Although that is below the 4%pa achieved during the second half of the 1990s, global reliance on the US as the engine of world growth has begun to reduce, with more positive signs coming out of both Japan and Europe. Fuel costs will push global inflation higher over the next 12 months. However, the recent retreat of oil prices from their peak earlier in the year suggests there will be no significant negative impact on global economic growth.

National Outlook

National economic growth has cooled over the past year, from more than 5%pa to around 3%pa (based on quarterly seasonally adjusted data annualised). However, house prices are still rising at around 15%pa, unemployment is comfortably below 4%, wage inflation is running between 4% and 5%pa, and although growth in retail sales has peaked, on an annual basis, it is still around 5%.

Strong growth in the terms of trade, the population, employment and household consumption have provided the base for vibrant economic conditions over the past three years. Despite rising interest rates and some petrol-price pain more recently, household spending is still growing at around 5%pa.

Fuel prices and unit labour costs have resulted in upward pressure on the CPI, with consumer prices now rising at their fastest rate in almost five years, and above the top of the Reserve Bank's target band. The Reserve Bank has raised the official cash rate three times this year, and it is currently at 7.25%. Inflationary pressures are expected to wane in 2006, allowing some modest declines in interest rates later in the year.

The consensus view is that national economic growth slowed over 2005 and will slow further over 2006 (calendar years) to about 2%. However, despite some dents to confidence, economic growth is likely to begin to recover in 2006 as:

- fiscal policy moves from being contractionary to cushioning the slowdown in domestic spending (courtesy of the government's Working for Families package);
- the big deterioration in net exports begins to turn around, with world economic growth remaining relatively strong and New Zealand's investment boom easing (reducing growth in imports);
- a tight labour market continues to underpin job security and real wage growth, ensuring that consumers' financial positions remain relatively robust.

Otago Outlook

The Otago Region is slowly becoming less dependent on the primary sector, as the business services, construction and tourism sectors provide increasing levels of employment and GDP growth. Population growth has driven employment growth in the service industries and looks set to continue as new residents flock to popular lifestyle areas such as Queenstown-Lakes and Central Otago, and also to suburban fringes.

However, the primary sector and the downstream manufacturing businesses it supports continue to be of vital importance to the Otago Region. Lifting not only output, but quality of output, and weathering the difficulties created by the strength of the New Zealand dollar, will be the key to the creation of long-term and sustainable economic growth.

The bright spots for the Otago economy over the 2006 calendar year are likely to include:

- The level of building activity will remain at high levels as non-residential consents are actioned throughout the region.
- The agricultural sector will grow after being hampered by the strength of the New Zealand dollar in recent years.
- Service industries will grow as population growth and the ongoing strength of the housing market stimulate demand.

Otago by Numbers

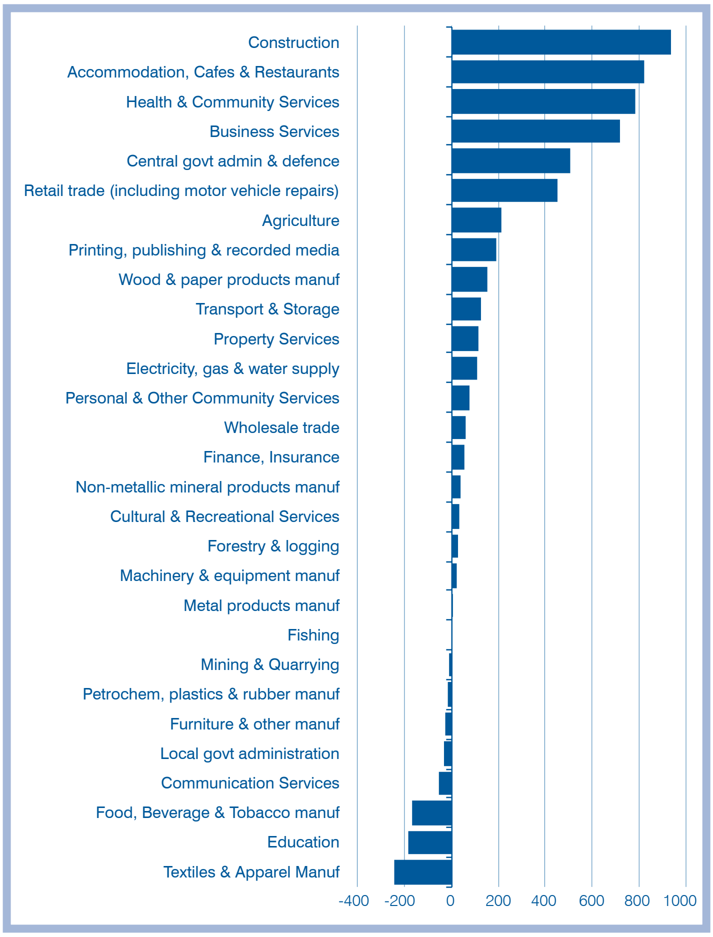
Real GDP estimates, Year ended March 2005

	Value	Annual growth		Share[2]
	1995/96 prices	2005	2001-2005[1]	
Dunedin City	$3448m	5.8%	4.8%	58%
Queenstown-Lakes District	$771m	10.9%	10.0%	13%
Clutha District	$537m	-4.5%	-3.2%	9%
Waitaki District	$604m	6.2%	1.9%	10%
Central Otago District	$611m	-1.4%	6.9%	10%
Otago region	**$5971m**	**4.7%**	**4.4%**	**4.9%**

Sources: GDP estimate - Infometrics Ltd
1. Average annual growth in four years since 2001
2. Share of Otago region real GDP, except for Otago region which is share of New Zealand GDP

Otago Employment Growth

Annual change in number of jobs, March 04-05



Source: Statistics New Zealand

Otago Region's economy is estimated to have grown by 4.7% over the year to March 2005. This compares with a 3.5% increase in real GDP reported for the whole of New Zealand during that period. Otago's share of the national economy consequently increased from 4.8% to 4.9% between 2004 and 2005. The Queenstown-Lakes District, Waitaki and Dunedin City areas performed particularly well with somewhat weaker growth in the Central Otago and Clutha districts.

Employment growth in Otago over the year to March 2005 was also strong, with employment at a regional level growing by 5.7%, compared to the national average of 4.5%. More recent labour market data gives contradictory pictures of the health of the Otago labour market. Our interpretation is that employment growth in Otago has continued but at a slower pace in 2005 (see the Labour Force section).

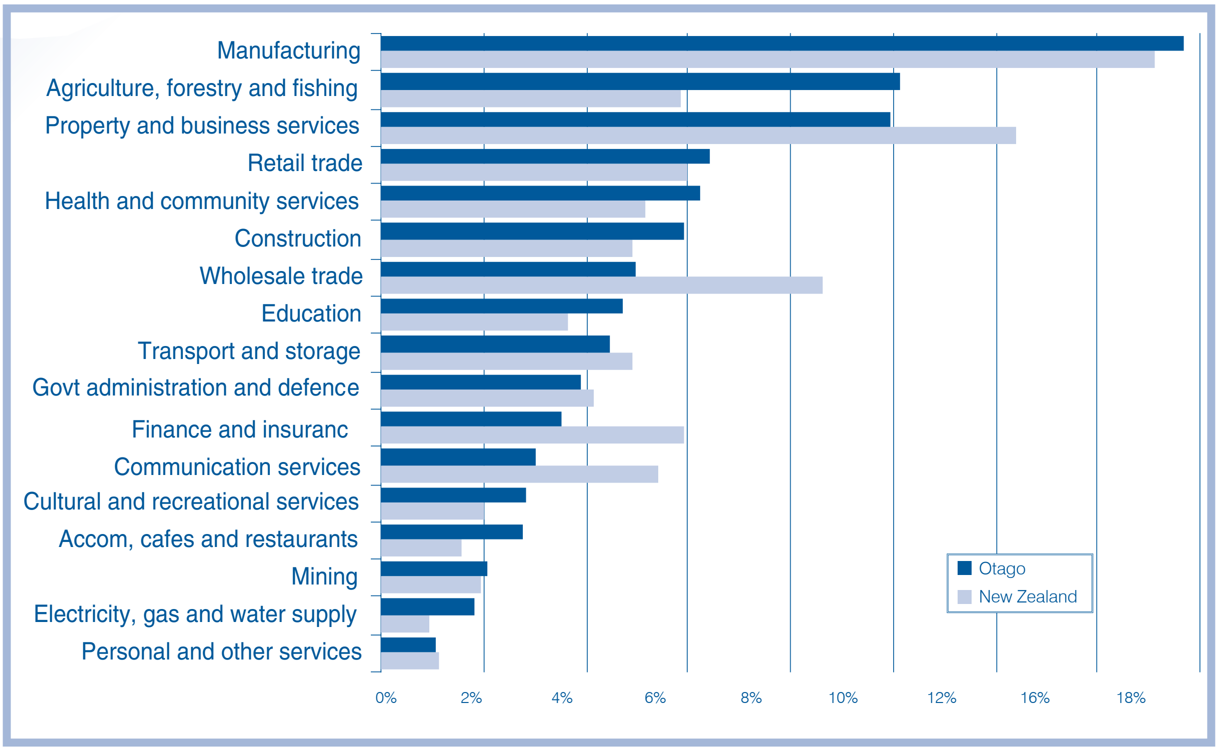
The construction industry created the most new jobs (936) in the Region over the year to March 2005. Other areas of strong job growth were accommodation (819 new jobs) and business services (716) (concentrated in Queenstown-Lakes and Dunedin City), and in government (505) and health (781) services (concentrated in Dunedin City).

Statistics New Zealand estimates that the Otago region's population increased by 1.1% (or 2,070 people) in the year to June 2005. This is slightly lower than the estimated national population growth of 1.4%, but it is higher than the 0.9%pa population growth for the region since 2001 and also the 0.9%pa for New Zealand excluding the Auckland region.

Structure of the Economy

Otago’s Economic Structure

Proportion of regional GDP by industry, 2005



Source: Statistics New Zealand, Infometrics

As at March 2005, Otago’s largest industries by value-added were:

- manufacturing 16%)
- agriculture, forestry and fishing (10%)
- property and business services (10%)
- retail trade (6%)
- health and community services (6%)
- construction (6%)

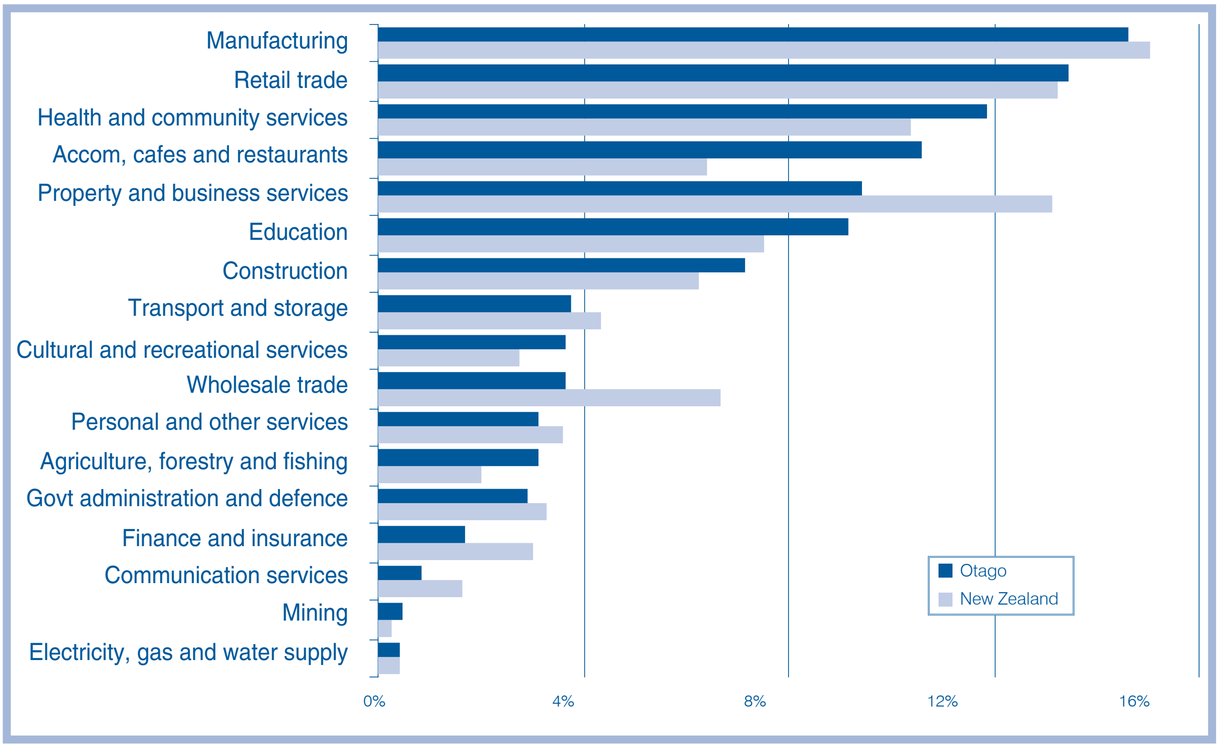
Manufacturing, agriculture, forestry and fishing, and property and business services are the cornerstones of the Otago economy, accounting for over a third of total regional output. However, construction has been the strongest growthsector in the region in recent years, with its value-added estimated to have increased by 32% in the two years to March 2005.The manufacturing sector is the biggest in the Otago economy, accounting for 16% of GDP and a similar proportion of employment.

The primary sector is of greater importance to Otago than it is to the national economy. Agriculture, forestry and fishing represent 10% of the Otago economy, compared to 6% nationally. The primary sector is the basis of a number of downstream processing businesses.

The property and business services sector made a strong contribution to economic growth in the region over the year to March 2005, with the number of employees rising by 829. Growth has been driven by the residential property boom, coupled with soaring non-residential activity.

Otago's Employment Structure

Proportion of regional employment by industry, 2005



Source: Statistics New Zealand, Infometrics

In March 2005, the biggest sectors by employment in Otago were:

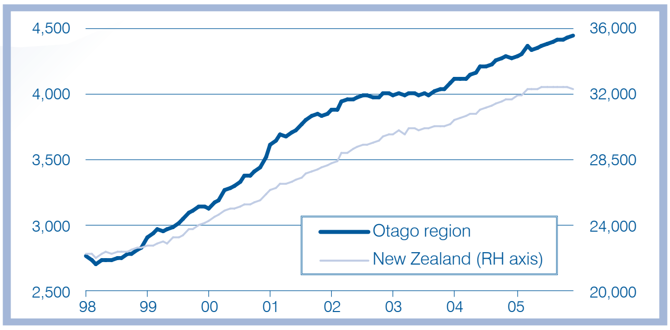
- manufacturing (15%)
- retail trade (13%)
- health and community services (12%)
- accommodation, cafes and restaurants (11%)
- property and business services (9%)
- education (9%)

The size of sectors by employment is not the same as their contribution to GDP. Estimates of GDP are a function of both employment and output per person employed in each industry. Retail trade; health and community services; accommodation, cafes and restaurants and education are all sectors that are more important in terms of the region's employment than economic activity. Some of this reflects the role of government and hence the not-for-profit nature of many activities (for example, education and health). It also reflects the labour-intensive nature of these and other service activities.

Tourism Trends

Guest Nights Purchased

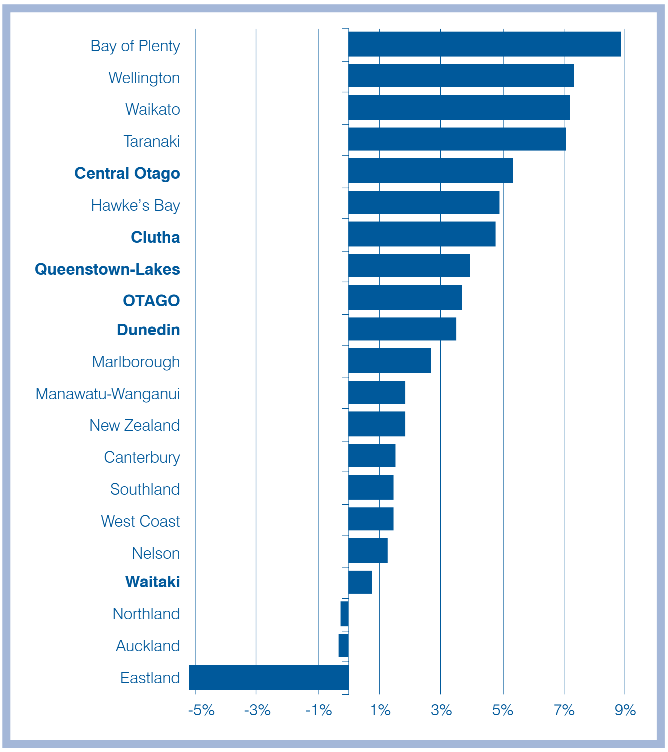
Annual running total, number (million)



Source: Statistics New Zealand

Growth in Guest Nights by Area

Year on year growth, year ended December 2005



Source: Statistics New Zealand

GUEST NIGHTS PURCHASED IN THE OTAGO REGION			
	Year ended Dec 2004	Year ended Dec 2005	Annual average % change
Waitaki	290,557	292,775	1%
Dunedin	857,634	887,557	3%
Clutha	60,565	63,463	5%
Central Otago	263,262	277,300	5%
Queenstown-Lakes	2,694,745	2,800,187	4%
Otago	**4,166,763**	**4,321,282**	**4%**

Source: Statistics New Zealand

Unlike the generally flat experience nationally, tourism activity in the Otago region continued to increase steadily in 2005. The number of guest nights purchased in the region rose 4% over the year ended December 2005 - twice the national rate of growth. Queenstown-Lakes District accounts for roughly two-thirds of all guest nights purchased in the region, while Dunedin accounts for a further fifth.

Tourism is the mainstay of the Queenstown-Lakes District's economy. Over the year ended December 2005, the number of guest nights purchased increased by 105,000 (4%). This is slightly down on the 5% recorded the year before but indicates continued solid growth.

The upgrading of Dunedin International Airport is on track to be completed by September 2006. Total passenger numbers using the airport increased 3.2% to 690,492 in the year to June 2005. The majority remain domestic passengers (597,506 or 87%), but international passenger numbers continue to expand strongly, with a 6.6% growth recorded in the year to June 2005.

The New Zealand tourism industry continues to be increasingly dependant on Australians, who accounted for 37.0% of all tourist arrivals over calendar 2005, and Britons accounted for 13.0%. The tour of the British and Irish Lions in 2005 was an important reason for the 23,000 increase in visitors from the United Kingdom to New Zealand in 2005.

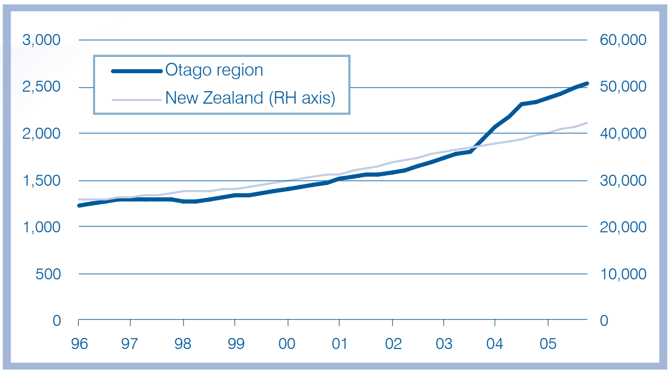
Without an event like the Lions tour, we expect the number of visitors from the United Kingdom to decline over 2006, but the pace of growth in visitors from Australia and China seems to be a more long-term phenomena.

Increases in visitors from these two countries accounted for 59% of the 473,000 total increase in visitors to New Zealand between 2001 and 2005. This trend is likely to continue. There is still no end in sight to China's rapid growth, which is boosting tourist numbers from that country, and the integration of New Zealand and Australian societies is likely to continue to boost trans-Tasman travel.

Retail Activity

Retail Sales

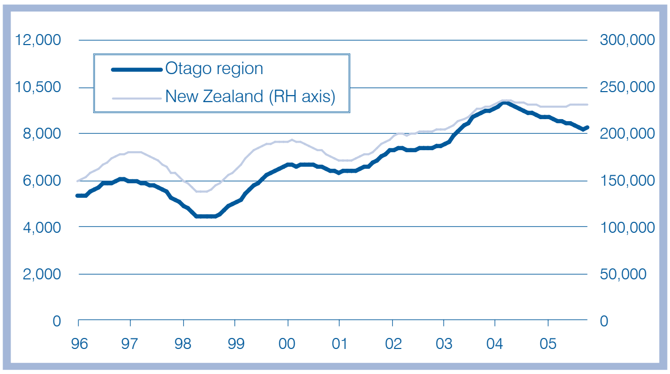
Value ($m)



Source: Statistics New Zealand

Car Registrations

Annual running total, number



Source: Statistics New Zealand

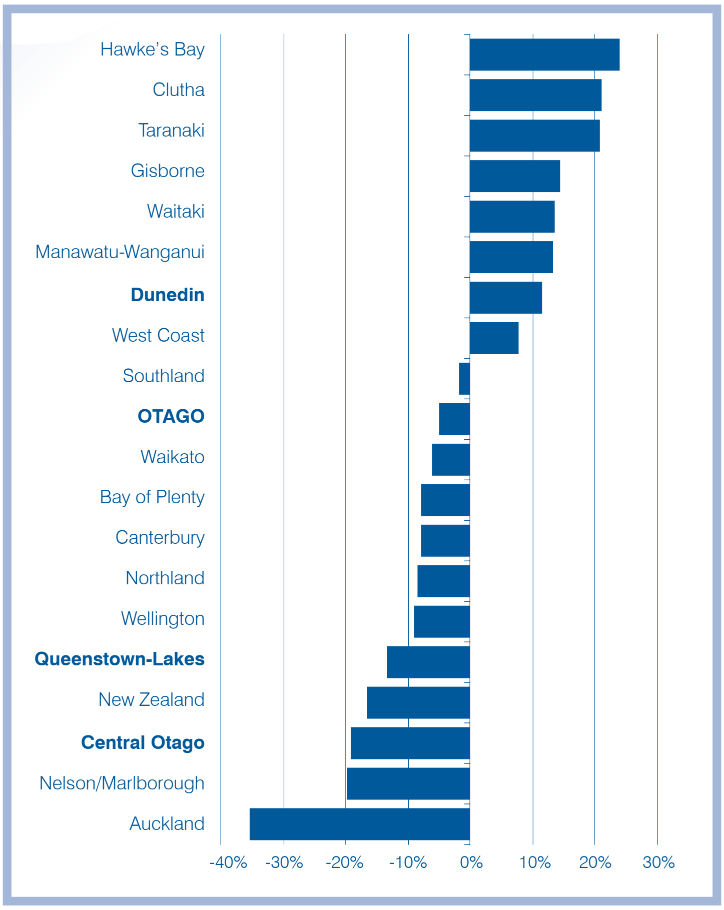
Retail sales in the Otago region continued to expand at a faster pace than the national average. In the year to December 2005, retail sales in the Otago region increased by 8% compared with the 6% reported nationally.

A key part of the slowdown in growth in national retail sales at the end of 2005 was a decline in spending on motor vehicles. It does not appear that the current strength in retail spending in Otago can be attributed to more spending on cars. Indeed there has been a considerable decline in car registrations in the Otago region since their 2004 peak (Graph 8). The implication is that there has been substantial growth in non-auto-motive consumption in the Otago region in recent years.

Building Activity

Residential Construction by Area

Year on year growth, year ended December 2005



Source: Statistics New Zealand

DWELLING CONSNETS ISSUED IN THE OTAGO REGION			
	Consents Issued (number)		Annual average % change
	Year ended Dec 2004	Year ended Dec 2005	
Waitaki	103	117	14%
Dunedin	380	424	12%
Clutha	62	75	21%
Central Otago	224	197	-19%
Queenstown-Lakes	732	633	-14%
Otago	**1,521**	**1,446**	**-5%**

Source: Statistics New Zealand

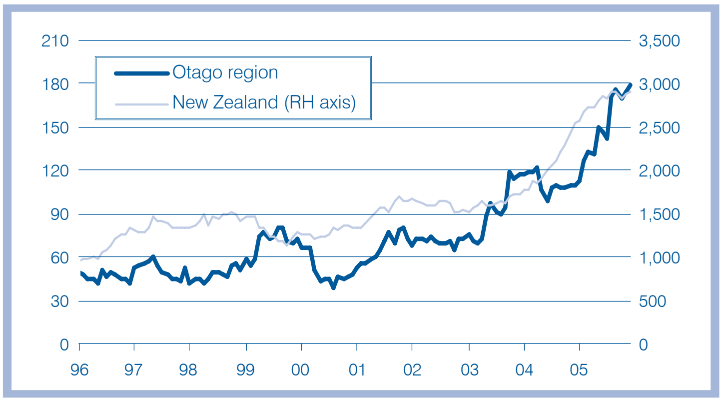
The decline in new house construction in Otago in 2004 stalled in 2005, and there has been a slight pick-up in building activity. This is not matched at a national level, where consent numbers drifted lower over 2005.

The recovery in house building activity in 2005 has primarily been a coastal phenomenon, with increases in consents in Waitaki, Clutha and Dunedin offsetting declines in Queenstown and Central Otago.

Despite the relative strength of construction activity in Otago in 2005, some further weakening is expected in 2006. High house prices (see Real Estate Market) have probably underpinned the recovery in building activity in Otago (as many will have found it cheaper to build than to buy existing houses). However, the ongoing effects of high interest rates and a high exchange rate are likely to be reducing the affordability of home ownership, and this impact is likely to be strong in Otago given the export nature of many of the Region's business activities. Therefore, we do not expect that the recent strength in house prices in Otago will be maintained, and this will in turn reduce the incentive to build as many new houses.

Non-residential Building Consents

Annual running total, value new ($m)



Source: Statistics New Zealand

NON-RESIDENTIAL CONSENT VALUES IN THE OTAGO REGION			
	New Building Consents Issued (value)		Annual average % change
	Year ended Dec 2004 ($)	Year ended Dec 2005 ($)	
Waitaki	3,187,830	8,327,340	161%
Dunedin	27,147,613	46,454,096	71%
Clutha	4,993,401	60,913,028	1120%
Central Otago	19,514,030	16,116,947	-17%
Queenstown-Lakes	54,568,661	47,772,999	-12%
Otago	**109,411,535**	**179,584,410**	**64%**

Source: Statistics New Zealand

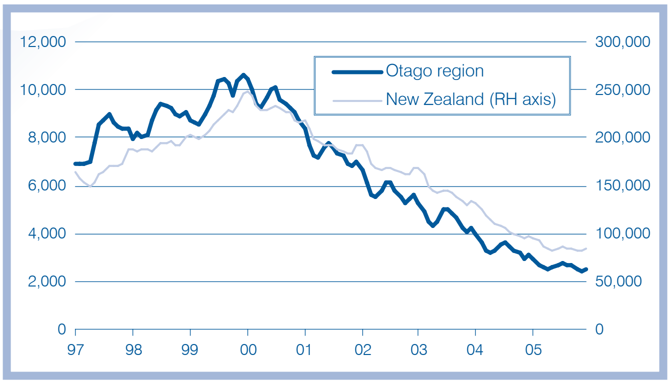
There was considerable growth in non-residential building consents in Otago during 2005. Non-residential consent data gives an indication about the direction of work put in place - it takes 6-9 months for trends in consent data to show up in actual work put in place. It appears that around $180m of non-residential building work will be completed in the region over 2006.

This growth in non-residential building consents has been driven by an exceptionally large amount of activity in the Clutha district. Consents for $61m were issued in 2005, compared with $5m in 2004. The main item here is the new 335-bed Otago Region Corrections Facility currently being constructed near Milton, which is due to be opened in 2007. There has also been reasonable growth in Waitaki and Dunedin City, but declines in Queenstown and Central Otago.

Labour Force

Registered Job Seekers

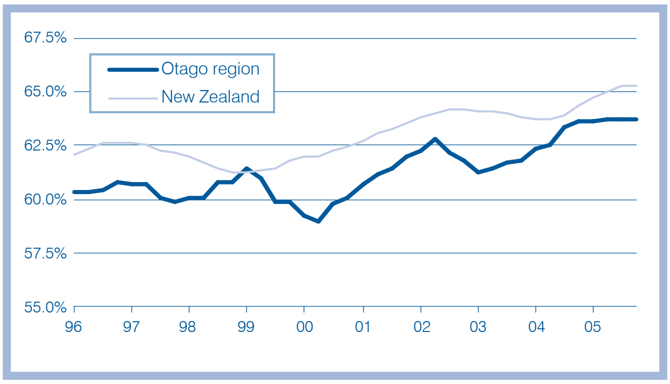
Monthly number



Source: Ministry of Social Development

Employment Rate

Employed as % of working age population



Source: Statistics New Zealand

Employment over the year to March 2005, as measured by Statistics New Zealand's Business Demographic data, rose 5.7% in the Otago Region. The construction industry created 936 new jobs, accounting for 20% of the increase in employment in the Region over the year to March 2005. Other areas of strong job growth were in accommodation (819 new jobs) and business services (716) (concentrated in Queenstown-Lakes and Dunedin City) and in government (505) and health (781) services (concentrated in Dunedin City).

This Business Demographic data provides a comprehensive view of employment in the region, but is now a bit dated. Household Labour Force Survey (HLFS) data suggests that employment in Otago has weakened since the beginning of 2005. However, this impression is contradicted by a steady decline in the number of registered job seekers in the Otago region during 2005.

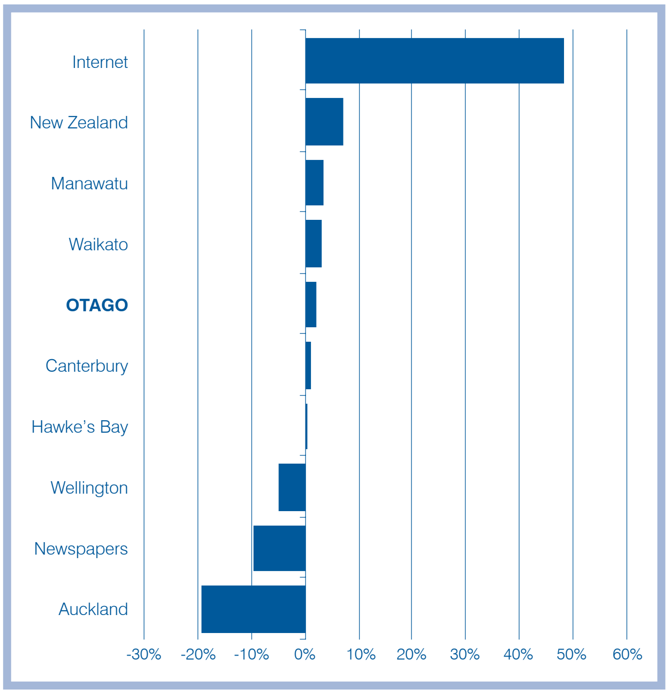
The number of job seekers registered at the Ministry of Social Development declined from 3,112 in December 2004 to 2,462 in December 2005. Three-quarters of registered job seekers in the region reside in Dunedin, with only 10 in Queenstown-Lakes and 13 in Central Otago, reflecting the tightness of the labour markets in these districts.

On balance, we consider that while the pace of employment growth may have slowed in 2005, we do not think that there has been an absolute decline in employment in Otago as suggested by the HLFS.

The decline in registered jobseekers in Otago over the past five years has meant that there is a larger proportion of Otago's working age population with jobs than in the 1990s. According to HLFS data, 63.7% of the Otago working age population was in some form of paid employment in 2005, compared to 59.8% in 2000. This rise in employment rates in the last five plus years has been a national phenomenon. The employment rate in Otago has traditionally been lower than the national average, which probably reflects the high proportion of tertiary education students in Otago.

Job Advertisements by Area

Year on year growth, year ended December 2005



Source: ANZ Job Advertisements Series

REGISTERED JOB-SEEKERS IN THE OTAGO REGION			
	As at Dec 2004	As at Dec 2005	Annual % change
Waitaki	408	344	-16%
Dunedin	2,400	1,874	-22%
Clutha	257	221	-14%
Central Otago	32	13	-59%
Queenstown-Lakes	15	10	-33%
Otago	**3,112**	**2,462**	**-21%**

Source: Ministry of Social Development

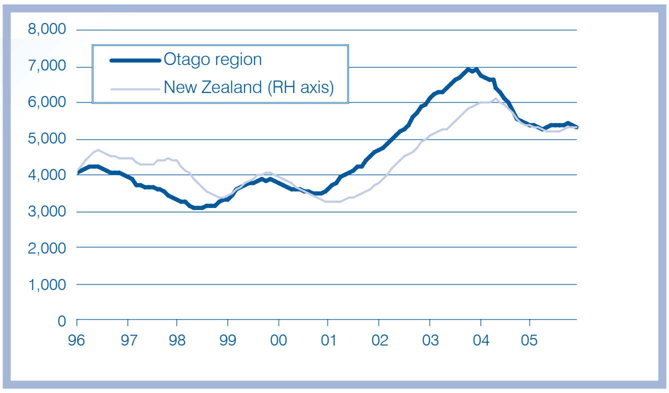
The ANZ Job Ads series shows that there was a modest 2.1% increase in the level of job advertising in Otago newspapers during the year to December 2005. That there has been any increase in job advertising in the region is once again at odds with the HLFS implied declines in employment. The increase in job advertising in Otago also compares with a national decline in job advertising in newspapers of 9.5%.

New Zealand is in the midst of a structural change in the way that jobs are advertised and how people search for jobs, which makes it difficult to interpret job-advertising data at present. While there were 15,591 fewer job advertisements in New Zealand newspapers in the December quarter 2005 compared with the December quarter 2004, there were at the same time 21,863 more jobs advertised on the internet. In just one year, the internet-based job advertisements have increased from 32% to 45% of all New Zealand job advertisements. This growth in internet advertising makes it more difficult to conduct a regional analysis of job vacancies, as no information, as yet, is provided on the regional location of the 67,902 jobs advertised on the internet in the December quarter 2005.

Real Estate Market

Otago House Sales

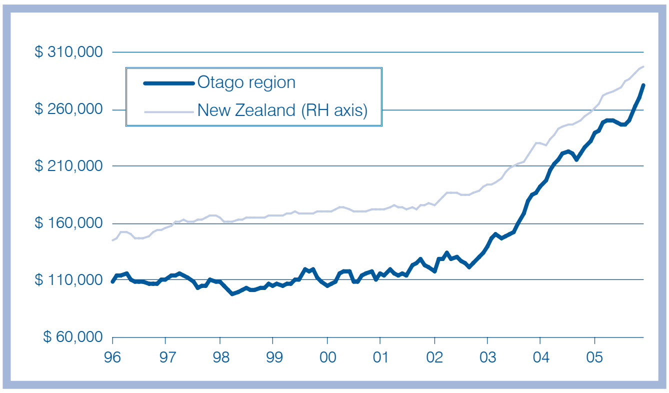
Annual running total, number



Source: Real Estate Institute of New Zealand (REINZ)

Median House Sale Price

Three month running average



Source: Real Estate Institute of New Zealand (REINZ)

MEDIAN HOUSE SALE PRICES IN THE OTAGO REGION			
	Median House Price		
	As at Dec 2004 ($)	As at Dec 2005 ($)	Annual % change
Waitaki	141,000	150,000	12%
Dunedin City	209,162	227,942	9%
Clutha	85,000	138,000	62%
Central Otago	280,000	320,000	14%
Queenstown-Lakes	510,000	624,950	23%
Otago	**234,839**	**293,618**	**25%**

Source: Real Estate Institute of New Zealand (REINZ)

The number of house sales remained steady over 2005. On a year-on-year basis, the number of sales in 2005 was 3% lower than in 2004. However, this dip in annual sales reflected a decline in sales in the middle of 2004, with sales remaining steady since then.

This steady regional picture masks variations in outcomes at the Territorial Local Authority level. In particular, increases in house sales in Waitaki and Queenstown-Lakes largely offset declines in sales in Dunedin.

The lack of sales growth did not prevent further strong growth in Otago house prices in 2005. The median house price in Otago increased by 25% from $234,839 to $293,618 between 2004 and 2005. In four years, the median Otago house price has moved from being two-thirds of the national median to being the equivalent of the national median, $295,000.

While there were house price rises throughout the region, the strength of the region's housing market is centred on the Queenstown-Lakes district. Demand for houses in the Queenstown-Lakes district has driven up the median house price there to $624,950 in December 2005. But even in Dunedin, where sales have been relatively stable, there was a 9% increase in the median price over 2005.

The largest house price rises have been in the Clutha district, where the median house price increased 62% in 2005, indicating that the recovery in returns to farming since the 1990s has finally fed through into the district's housing market. These house price rises may have provided the stimulation for more construction activity in Clutha (see Building Activity).

With little tangible evidence to justify our pessimism and despite having been proved wrong in the past by the ongoing strength of the Otago housing market, we still expect Otago's housing market to weaken in 2006. As we have noted above, the ongoing effects of high interest rates and exchange rates will reduce the affordability of home ownership. This impact is likely to be strong in Otago, given the export nature of many Otago business activities.

Population

Statistics New Zealand estimates that the Otago region's population increased by 1.1% (or 2,070 people) in the year to June 2005. This is slightly lower than the national estimate of 1.4% growth in 2005, but it is higher than the 0.9% average population growth for the region since 2001 and also the 0.9% average for New Zealand excluding the Auckland region.

Estimated Resident Populations

Territorial authorities and Regional Council, as at 30 June 2001-2005

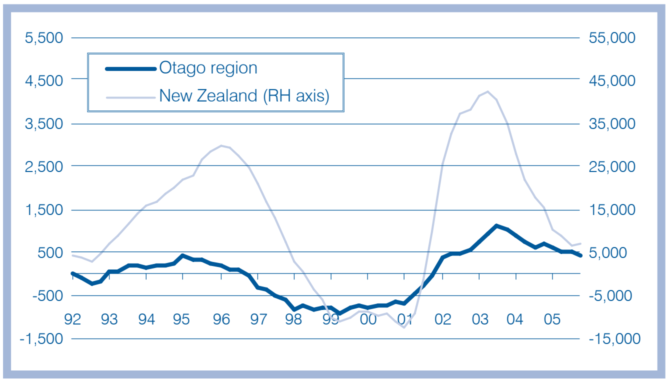
	Estimated Resident Populationat 30 June			Average annual population change 2001-2005		Average annual population change 2001-2005		Share[1]
	2001	2004	2005	Number	%	Number	%	%
Otago Region	188,300	194,900	196,600	2,070	1.1	1,680	0.9	5
Waitaki District	20,500	20,000	19,850	-170	-0.8	-150	-0.7	10
Central Otago District	14,750	15,050	15,100	80	0.5	30	0.2	8
Queenstown-Lakes District	17,850	22,200	23,500	1,410	7.1	1,320	6.0	12
Dunedin City	119,300	121,900	122,500	790	0.7	560	0.5	62
Clutha District	17,550	17,350	17,200	-90	-0.5	-130	-0.8	9
New Zealand excl.Auckland	2,663,600	2,744,600	2,761,800	24,530	0.9	17,170	0.6	67
New Zeland	**3,880,500**	**4,061,400**	**4,098,900**	**54,590**	**1.4**	**37,450**	**0.9**	

Source: Statistics New Zealand

1. Share for Otago Territories is percent of Otago region, others are percent of New Zealand total

Net External Migration

Annual running total, number



Source: Statistics New Zealand

NET MIGRATION IN THE OTAGO REGION	Year ended Dec 2004	Year ended Dec 2005	Annual average % change
Waitaki	-10	-14	-4%
Dunedin	495	229	-266%
Clutha	-8	-38	-30%
Central Otago	-26	24	50%
Queenstown-Lakes	222	224	2%
Otago	**673**	**425**	**-248%**

Source: Statistics New Zealand

Queenstown-Lakes District continues to record the fastest population growth for the region (6.0%, 1,320 residents) over the year to June 2005. Growth in the Queenstown-Lakes population represents three quarters of the population growth for the whole of Otago. Since 2001, Queenstown-Lakes has overtaken Waitaki as Otago's second most populous district.

Net external migration (i.e. people moving between Otago and other countries as distinct with other parts of New Zealand) continues to make up around one quarter to one third of regional population growth. Net external migration numbers dwindled at both a regional and national level in 2005. Over the year ended December 2005, arrivals outnumbered departures by 425 in the Otago region, about 250 less than in 2004. At a national level, net migration has declined from over 40,000 in 2003 to 6,971 in 2005. Net external migration for Otago follows national patterns, but typically has relatively less extreme peak migration inflows.

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